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DJ FOCUS: Molybdenum May Hold Value Amid Base Metals Slump

By Matt Whittaker
Of DOW JONES NEWSWIRES

LONDON (Dow Jones)-Molybdenum, a component in structural steel and oil pipelines, may hold its value more solidly in 2009 than other base metals because of tight supplies and continuing demand growth despite the credit crunch.

Although there is downside risk for the so-called minor metal as steel and oil demand decline with dimming economic-growth forecasts, demand nevertheless is forecast to continue outpacing supply.

Most of the 400 million pounds produced each year is consumed, and consumption has been increasing from 5% to 7% a year, said Stefan Ioannou, mining analyst with Haywood Securities. With the current market turmoil, consumption growth may remain at the lower end of that range or fall to 4%, but is still expected to remain in positive territory.

Meanwhile, some miners may have a harder time financing planned mining projects because of the credit crisis, delaying the projects coming online, Ioannou said.

It isn't clear where longer-term molybdenum supply will come from, even though the price is still significantly above the marginal cost of production for miners, said Bart Melek, global commodity strategist with BMO Capital Markets.

"This financial crisis will lead to less supply growth" across the base-metal spectrum, including for molybdenum, because it is becoming more difficult for producers to get working capital, Melek said.

Molybdenum is often produced as a byproduct of copper mining, and as prices have risen over the last three or four years, these producers have "picked all the low-hanging fruit," Ioannou said. To continue producing the metal, they will have to mine lower ore grades, further denting the supply outlook.

A "Potential Star," With Risks

There isn't much room for supply growth because byproduct producers have already ramped up production in reaction to earlier price rises, said Catherine

Virga, base-metals analyst with CPM Group.

Molybdenum could see price pressure because the Chinese are expected to consume less of the metal and trading houses and fabricators are clearing out inventories to hold cash amid the credit crunch, Virga said.

But that inventory destocking comes when inventories are already low, and the market is likely to remain in a deficit, Virga said.

"I do think that they (molybdenum prices) could hold their value more so than other industrial metals."

Molybdenum is a "potential star" for investors in 2009, Phil Newman, chief operating officer with metals and mining consultancy CRU Strategies, said at a presentation during the annual London Metal Exchange week. Newman also cited molybdenum in a list the consultancy sees performing well for investors over the next two to five years.

Newman cautioned that molybdenum prices could decline or rise, but that it was included as a top pick because the consultancy sees the metal maintaining its value overall.

In the molybdenum industry, consumers and producers reach over-the-counter volume agreements in negotiations during October, November and December each year, said Wayne Cheveldayoff, director of investor relations with Denver-based molybdenum producer Thompson Creek Metals Co. (TC).

While there is a spot market for the metal, there is currently no exchange-traded forward market.

But the London Metal Exchange plans to launch molybdenum futures contracts in the second half of 2009, a move the exchange says will help producers, suppliers, consumers and other investors lock in their profits or costs in volatile markets.

Opponents of molybdenum futures say the contracts will open the metal up to speculative interest that will increase volatility, but supporters of the idea say the move will offer more price transparency.

Liquidity in the LME futures contracts will first have to come from industry participants interested in risk management, said Chris Evans, new products manager with the LME.

Molybdenum prices are already volatile, but the new contracts will offer a way to manage that risk, Evans said.

"The notion that non-exchange-traded (products) are less volatile than exchange-traded (products) is incorrect," Evans said.

Molybdenum spiked to around \$70 a pound during the 1970s but then came off with oil prices through the 1980s and 1990s. Molybdenum prices began to rise again in 2004 along with the boom in steel, oil and other commodities.

The metal's price has been around \$32 to \$35 a pound for much of this year, but is now moving into the \$30 to \$31 area. The industry sees molybdenum prices declining more in the short term, perhaps into the \$25 to \$30 range because of flagging demand for steel and oil, Ioannou said.

But its strong supply-demand fundamentals suggest the metal will avoid a collapse, such as the nearly 50% decline in copper prices since July, Ioannou said.

"The outlook for the metal is still pretty strong," he said.

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